MICHIGAN DEPARTMENT OF CONSUMER & INDUSTRY SERVICES
BUREAU OF WORKERS' & UNEMPLOYMENT COMPENSATION
LANSING, MICHIGAN

ADEQUACY OF BENEFITS PAID UNDER THE WORKERS' DISABILITY COMPENSATION ACT

ELEVENTH BIENNIAL STUDY

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Bureau of Workers' & Unemployment Compensation

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INTRODUCTION

This is the eleventh report submitted by the acting director of the Bureau of Workers' & Unemployment Compensation in accordance with Public Act 203 of 1981. As mandated by the statute, this report addresses the effect of inflation on benefits.

Section 364 of the Act specifically states: "A bi-annual [sic] study shall be conducted by the director of the adequacy of weekly benefits paid under this Act. The study shall evaluate the effects of inflation on benefits and other factors that the director considers relevant. The director shall report the results of the study and make appropriate recommendations to the legislature by March 1, 1983. By March 1 of each following odd numbered year, the director shall repeat this process."

EFFECTS OF INFLATION ON BENEFITS

Weekly workers' compensation benefits are permanently fixed as of the year of injury, with certain exceptions[1]. Although a fixed benefit may be acceptable for an injury with little lost time, a hardship can be imposed on the long-term disabled who do not qualify for permanent and total disability adjustments or vocational rehabilitation services under the Act. As inflation reduces the buying power of the dollar, disabled workers suffer a decline in their standard of living.

In order to address this concern, the legislature created a Supplemental Benefits Program in Public Act 357 of 1980. Supplemental benefits have been paid to disabled workers with pre-1980 injury dates since January 1, 1982. These benefits are totally funded by the state through a combination of tax credits and general fund appropriations. As of March 1, 2002, approximately 4,500 individuals are receiving supplemental benefits. As shown in Table I, supplements, which vary by the date of injury, range from 10.3% to 88.6% of the original benefit. For example, a worker disabled in 1970 who receives a benefit of $75 per week from the employer, receives a supplemental payment of $53 a week as a result of PA 357 of 1980.

Wage replacement comes through workers' compensation benefits, and through other payments provided by employers to reduce the benefits under the Workers' Disability Compensation Act. The potential workers' compensation benefit is reduced by 100% of employer-financed pensions, wage continuation plans, workers' compensation supplements, and unemployment benefits, and by 50% of Social Security Old-Age Benefits. Some workers may have no benefit offset under this law, while others may have their total workers' compensation benefit offset.

It should be noted that injured workers who are found to be disabled and unable to return to the work force usually qualify for monthly disability benefits from the federal Social Security

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[1]See Section 353, Changes in Dependency; Section 356, Adjustments After Two years of Continuous Disability; Section 357, Benefit Reductions After Age 65; and Section 361, Adjustments for Totally and Permanently Disabled Employee.

Administration. The disability benefits, along with medical care provided by Medicare, provide another source of income replacement for disabled workers as a result of a work related condition. The social security disability benefits are reduced however, by a substantial portion of any workers' compensation benefit received.

The Workers' Disability Compensation Act provides for weekly benefits of 80% of after-tax wages, subject to a maximum of 90% of the state average weekly wage in the year of injury. Prior to January 1, 1982, benefits had been 2/3 of gross wages with maximums that varied according to the number of dependents.

Benefits at the time of injury are now generally adequate. Workers' compensation is a "trade off" in which workers receive benefits in a "no-fault" system in exchange for giving up their right to tort remedy against the employer.

Table II indicates the impact on the buying power of benefits after even a few years of inflation. The decline in buying power is compounded by the lost potential for wages in the occupation in which the disability occurred. Not only do benefits buy less, but the job that the employee can no longer perform, pays more.

The effect of inflation can be illustrated by the example of a worker with no dependents who was disabled in 1990 while earning the state average weekly wage. The 1990 workers' compensation benefit for someone earning the state average weekly wage was $274 a week. In 2002, the buying power of the $274 had been reduced to $199 in 1990 dollars.

A worker with no dependents who was disabled in 1980 while earning the state average weekly wage, received a weekly benefit of $171. Although the disability continued in 1988 and benefits were voluntarily paid by the insurance carrier, the benefit of $171 a week remained the same. Since the Supplemental Benefit Program applies only to pre-1980 injuries, there was no protection against inflation. By 2002, the buying power of the $171 has been reduced to $78 in 1980 dollars.

Since the state average weekly wage increased in 2002 to $715 a week, it is probable that the worker from the example would have earned that wage if disabled in 2002, instead of 1980. The 2002 workers' compensation benefit for someone earning the state average weekly wage was $417, or $246 more than the person injured in 1980.

A worker with an injury date of 1970 who was making the state average weekly wage receives a weekly benefit of $75. When the supplemental benefit of $53 a week (see Table I) is added to the employer-paid benefit, the total benefit is only $128 a week. This represents 31% of the benefit received by someone injured in 2002 that was earning the state average weekly wage. The $128 total weekly benefit had a 2002 buying power in 1970 dollars of $28 a week.

Clearly, the payment of supplemental benefits has assisted in restoring some of the lost purchasing power of workers' compensation benefits. Yet as Table II shows, there is a continuing erosion in purchasing power for those drawing supplemental benefits. The longer the duration of the disability, the less workers' compensation benefits buy.

The same reality applies to benefits reduced by the coordination under Section 354 of the Act. A worker, with no dependents, injured in 1982, earning the state average weekly wage, is eligible for a pre-coordinated workers' compensation benefit for $195 a week. If the worker is eligible for an employer-financed wage continuation plan of $150 a week, their workers' compensation benefit is reduced to $45 a week. However, the worker retains a total wage replacement of $195, which equals 80% of after-tax income at the time of disability.

By 2002, the value of his total wage replacement was $104 a week in 1982 dollars. If disabled in 2002 while earning the state average weekly wage, the worker would have received a total wage replacement of $417 a week.

It is recommended by the bureau that the legislature review this study and report and determine what can be done to address the continual loss of purchasing power by injured workers in Michigan over the life of their workers' compensation claim.

Table 1

SUPPLEMENT TO WEEKLY COMPENSATION

Year		% Adjustment
1968	(9/1/65 - 12/31/68)	88.6
1969		79.6
1970		71.0
1971		62.9
1972		55.1
1973		47.7
1974		40.7
1975		34.0
1976		27.6
1977		21.6
1978		15.8
1979		10.3

418.352 (2)
Base year for injury dates 9/1/65 through 12/31/68 is 1968.
For injury dates 1/1/69 through 12/31/79, the base year is the year of injury.

Table II

EFFECT OF INFLATION ON BENEFITS

Year of Injury	State Average Weekly Wage Used In Calculating Weekly Benefit	Weekly Benefit at State Average Weekly Wage for O Dependents^	Supplemental Payment	Total Benefit	2002 Buying Power of Total Benefits in Dollars of Injury Year*	Annual Average CPI**
1968	$137.41	$64.00	$57.00	$121.00	$23.41	104.2
1969	$145.11	$69.00	$55.00	$124.00	$25.30	109.8
1970	$154.59	$75.00	$53.00	$128.00	$27.61	116.3
1971	$160.58	$79.00	$50.00	$129.00	$29.04	121.3
1972	$168.86	$84.00	$46.00	$130.00	$30.21	125.3
1973	$182.35	$94.00	$45.00	$139.00	$34.31	133.1
1974	$194.34	$101.00	$41.00	$142.00	$38.91	147.7
1975	$203.39	$107.00	$36.00	$143.00	$42.76	161.2
1976	$214.38	$115.00	$32.00	$147.00	$46.49	170.5
1977	$232.39	$127.00	$27.00	$154.00	$51.88	181.5
1978	$254.79	$142.00	$22.00	$164.00	$59.44	195.4
1979	$275.41	$156.00	$16.00	$172.00	$69.41	217.4
1980	$298.82	$171.00	$0.00	$171.00	$78.32	246.8
1981	$313.22	$181.00	$0.00	$181.00	$91.46	272.4
1982	$340.45	$194.63	$0.00	$194.63	$104.40	289.1
1983	$358.89	$207.56	$0.00	$207.56	$114.91	298.4
1984	$370.65	$217.46	$0.00	$217.46	$125.59	311.1
1985	$397.48	$230.96	$0.00	$230.96	$138.14	322.2
1986	$414.70	$241.84	$0.00	$241.84	$147.34	328.4
1987	$433.91	$254.63	$0.00	$254.63	$160.79	340.4
1988	$440.77	$256.51	$0.00	$256.51	$168.68	354.3
1989	$454.15	$262.90	$0.00	$262.90	$181.21	371.3
1990	$474.22	$274.23	$0.00	$274.23	$199.23	391.4
1991	$477.40	$277.22	$0.00	$277.22	$209.88	408.0
1992	$489.01	$285.18	$0.00	$285.18	$222.41	420.3
1993	$506.80	$310.18	$0.00	$310.18	$249.14	432.7
1994	$527.29	$322.16	$0.00	$322.16	$265.39	444.0
1995	$554.22	$326.20	$0.00	$326.20	$276.34	456.5
1996	$581.39	$340.83	$0.00	$340.83	$297.26	469.9
1997	$591.18	$347.48	$0.00	$347.48	$310.01	480.8
1998	$614.10	$360.41	$0.00	$360.41	$326.55	488.3
1999	$644.06	$376.90	$0.00	$376.90	$349.04	499.1
2000	$678.23	$394.67	$0.00	$394.67	$377.78	515.8
2001	$714.46	$414.71	$0.00	$414.71	$408.26	530.4
2002	$715.11	$417.03	$0.00	$417.03	$417.03	538.8

^ Benefit rate for 1968-1981 is the maximum rate.
** Base year 1967=100